

Message Text

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C O N F I D E N T I A L LISBON 8568

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DEPT PLEASE PASS TREASURY

E.O. 11652: GDS
TAGS: EAID, EFIN, PO
SUBJ: FINANCIAL ASSISTANCE FOR PORTUGAL

1. PRESIDENT EANES SUMMONED ME AT 4:30 TODAY, DECEMBER 13.
AFTER BRIEF DISCUSSION OF ELECTION RESULTS EANES SAID
PURPOSE OF INVITING ME IN WAS TO DISCUSS US
ECONOMIC ASSISTANCE TO PORTUGAL. HE EXPRESSED APPRECIATION
FOR OUR WILLINGNESS TO HELP AND REITERATED HIS
DETERMINATION TO TOUGHEN UP ECONOMIC POLICIES NOW THAT
THE ELECTION CYCLE IS OVER. THE EFFECT OF THESE POLICIES
WOULD BE FELT IN JANUARY AND FEBRUARY OF NEXT YEAR AND
WILL LEAD TO A CERTAIN AMOUNT OF UNREST.

2. IT WAS FOR THIS REASON THAT THE FORM IN WHICH THE
\$300 MILLION IS LENT IS EXTREMELY IMPORTANT. HE UNDERSTOOD
OUR LEGAL PROBLEM IN MAKING A CASH LOAN AND APPRECIATED
THE DIFFICULTIES INVOLVED. BUT HE ALSO FELT OBLIGED TO INFORM
US OF THE ADVERSE PSYCHOLOGICAL EFFECT THAT WOULD
INEVITABLY ACCOMPANY ANY LOAN INVOLVING THE SALE OF GOLD.
EANES RECALLED THAT IN HIS NATIVE TOWN OF CASTELLO BRANCO
THE MOST VALUED GIFT A FATHER COULD GIVE HIS SON WAS A
PIECE OF GOLD JEWELRY, BECAUSE GOLD SYMBOLIZED THE VIRTUES
OF HARD WORK AND THRIFT. THE PORTUGUESE PEOPLE WERE
NOT VERY SOPHISTICATED IN FINANCIAL MATTERS AND WOULD
SIMPLY NOT UNDERSTAND THE MECHANICS OF A GOLD SWAP.

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IT WOULD LEAD TO UNREST IN THE CONSERVATIVE AREAS OF

THE COUNTRY, PRECISELY THE AREAS THAT THE GOVERNMENT COUNTS
ON FOR SUPPORT FOR ITS ECONOMIC PROGRAM.

3. I EXPLAINED TO THE PRESIDENT WHY THE GOLD SWAP
WAS THE ONLY SOLUTION IN THE ABSENCE OF A SPECIFIC
CONGRESSIONAL AUTHORIZATION. HE REEMPHASIZED THE
SERIOUSNESS OF THE PROBLEMS THIS WOULD CREATE AND I
PROMISED TO CONVEY HIS VIEWS TO WASHINGTON.
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